

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 NEA-10 ADP-00 AID-20 CEA-02 CIAE-00

COME-00 EA-11 FRB-02 INR-10 IO-13 NSAE-00 RSC-01

OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10

SS-15 STR-08 PA-03 PRS-01 USIA-15 L-03 RSR-01 /184 W

----- 129221

R 040910Z SEP 73

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 6547

INFO AMEMBASSY PARIS

AMEMBASSY BONN

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PARIS FOR OECD

E.O. 11652: N/A

TAGS: EAID GW IN

SUBJ: FRG-GOI ECONOMIC ASSISTANCE AGREEMENT

BEGIN SUMMARY: THE ECONOMIC ASSISTANCE AGREEMENT SIGNED
HERE ON AUGUST 28 TOTALLED \$126 MILLION (DM310 MILLION), A
10.7 PERCENT INCREASE FROM FY 1972-73. COMMODITY, CAPITAL
GOODS, AND PROJECT LOANS, AMOUNTED TO DM 120 MILLION, WHILE
DM140 MILLION WAS SET ASIDE FOR DEBT RELIEF. THIS FULFILLED
THE WEST GERMAN CONTRIBUTION TO THE AID INDIA CONSORTIUM
FOR FY 1973-74. ALL NON-PROJECT AID WAS UNTIED, ALLOWING
INDIA TO PURCHASE GOODS AND SERVICES WORLDWIDE. END SUMMARY

1. THE ASSISTANCE PACKAGE CONSISTED OF A DM80 MILLION LOAN
FOR COMMODITY IMPORTS, DM50 MILLION FOR MUTUALLY SELECTED
PROJECTS, DM20 MILLION FOR CAPITAL GOODS IMPORTS APPROVED BY
THE INDIAN INTER-MINISTERIAL COMMITTEE, AND DM20 MILLION FOR
RELENDING OF SMALL BUSINESS LOANS THROUGH THE IFC AND ICICI. THE
DM140 MILLION EARMARKED FOR DEBT RELIEF INCLUDED RESCHEDULING
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DM96 MILLION OF PRINCIPAL REPAYMENTS, A GRANT OF DM22

MILLION TO OFFSET INTEREST PAYMENTS, AND A DM20 MILLION LOAN TO HELP REPAY PAST DEBTS.

2. OF THE TOTAL AID (NOT COUNTING THE DM22 MILLION INTEREST GRANT), DM190 MILLION WILL BE REPAYABLE IN 30 YEARS, INCLUDING A TEN YEAR GRACE PERIOD, AT 2 PERCENT PER ANNUM, WHILE THE DM98 MILLION DEBT RESCHEDULING LOAN IS REPAYABLE IN 20 YEARS AT 3 PERCENT WITH A SEVEN YEAR GRACE PERIOD. GOI REPAYMENTS IN 1973 TO FRG OF PREVIOUS HARD LOANS WILL AMOUNT TO DM285 MILLION, FOR A NET GRG ASSISTANCE INFLOW OF DM25 MILLION.

3. FRG ECONOMIC COUNSELLOR DIETRICH LINCKE MADE THE FOLLOWING FURTHER POINTS TO EMBOFF:

A. DEBT RSCHEDULING - THIS IS A UNILATERAL COMMITMENT BY FRG, PARTLY SPURRED BY CHANCELLOR BRANDT'S REGARD FOR MRS. GANDHI AND HUMANITARIAN FEELINGS TOWARD INDIA BY THE GERMAN PUBLIC. DESPITE FRG IRRITATION TOWARD SOME

MEMBERS OF CONSORTIUM FOR NOT PULLING THEIR WEIGHT, GERMAN AID SHOULD CONTINUE TAT SAME LEVEL IN THE NEAR FUTURE, REPEATING THE USUAL DEBT RESCHDULING EXERCISE. LINCKE AVOIDED COMMENTING ON THE PROBLEM OF DEBT RESCHEDULING BY THE USSR AND OTHER NON-MEMBERS OF THE CONSORTIUM.

B. UNTIED NON-PROJECT AID - EMBARRASSINGLY LARGE FRG TRADE SURPLUS WITH INDIA VIRTUALLY FORCED BONN TO FREE ALL PURCHASES OF COMMODITY GOODS AND SERVICES. LINCKE WAS CERTAIN THAT MOST CAPITAL GOODS REQUIRED FOR GERMAN-ADMINISTERED PROJECTS WOULD CONTINUE TO BE PROVIDED BY GERMAN FIRMS, ALTHOUGH THERE WOULD BE A DROP IN COMMODITY PURCHASES.

C. TRADE - DUE TO D-MARK REVALUATIONS AND THE RECENT EC GENERAL SCHEME OF PRFERENCES, FRG TRADE SURPLUS WILL BE CUT IN HALF DURING THIS YEAR FROM THE 1972 SURPLUS OF \$150 MILLION, PROJECTING FROM THE FIRST QUARTER TRADE FIGURES. WITH THE EXCEPTION OF SOME ENGINEERING EQUIIPMENT, INDIA'S NON-TRADITIONAL EXPORTS DO NOT USUALLY MEET LIMITED OFFICIAL USE

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GERMAN BUSINESS STANDARDS, WHILE TRADITIONAL EXPORTS ARE HAMPERED BY COMMON EC DUTIES (I.E., 22 PERCENT ON JUTE) THAT CANNOT BE UNILATERALLY CHANGED BY FRG. WHILE THE FRG EXCHANGED NOTES WITH INDIA ON A COMMERCIAL DEVELOPMENT PROGRAM TO PROMOTE MANUFACTURED EXPORTS FROM INDIA, AS WELL AS INDIAN EXHIBITIONS AND GERMAN TRADE FAIRS, LINCKE FELT THIS WAS LARGELY WINDOW DRESSING.

D. PROJECTS - THE AID AGREEMENT HELPS THE FRG MAINTAIN A VARIETY OF MEDIUM-SIZED PROJECTS. THE MOST SIGNIFICANT NEW PROJECTS UNDER CONSIDERATION ARE THE CONSTRUCTION OF A LARGE FERTILIZER PLANT, AND ASSISTANCE IN INCREASING PRODUCTION AT THE ROURKELA STEEL WORKS. LINCKE EXPRESSED REGRET THAT MULTI-YEAR AID PLANNING AND PARTIAL FINANCING WERE NOT YET AVAILABLE TO THE FRG AID PROGRAM, SINCE THIS WOULD ENABLE LARGER SHOWCASE PROJECTS.

E. SCIENTIFIC AND TECHNOLOGICAL COOPERATION - THE AGREEMENT PROVIDES FOR INCREASED INDO-GERMAN TECHNICAL COOPERATION AND EXCHANGE OF EXPERTS FOR ADVANCED SCIENTIFIC PROJECTS, AS WELL AS CONTINUING TECHNICAL ASSISTANCE FOR TELEVISION AND AGRICULTURE. LINCKE BELIEVED TECHNICAL COOPERATION TO BE ONE OF THE MOST EFFECTIVE FORMS OF ASSISTANCE.

F. DIRECT INVESTMENT - WHILE GERMAN FIRMS ALREADY ESTABLISHED IN INDIA SO FAR ARE AVOIDING HEAT FROM THE GOI, BY

LOWING BACK MOST OF THEIR PROFITS INSTEAD OF REMITTING THEM, SOME GERMAN PHARMACEUTICAL SUBSIDIARIES ARE STARTING TO BE HAMPERED IN THEIR OPERATIONS, AND OVERALL INVESTMENT DECLINED IN 1972-73. THE FRG EMBASSY IS NOT ENCOURAGING NEW INVESTMENT IN INDIA.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, GOVERNMENT DEBTS, FINANCIAL DATA, ECONOMIC AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973NEWDE10249
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730956/aaaabphw.tel
Line Count: 141
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 19 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19-Dec-2001 by martinml>; APPROVED <10-Jan-2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRG-GOI ECONOMIC ASSISTANCE AGREEMENT BEGIN SUMMARY: THE ECONOMIC ASSISTANCE AGREEMENT SIGNED
TAGS: EAID, GE, IN
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005